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September 27, 2005

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, MA 02110

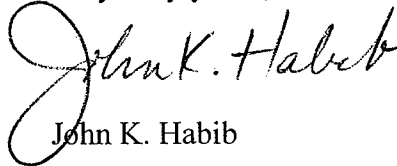
RE: NSTAR Gas Company 2005/2006 Peak Season Cost of Gas Adjustment,  
D.T.E. 05-GAF-P8

Dear Secretary Cottrell:

Please find attached the responses of NSTAR Gas Company (the "Company") to the Attorney General's First Set of Document and Information Requests in the above-referenced proceeding.

Please contact me, Cheryl Kimball or Kerry Britland (781-441-8219) at the Company if you have any questions regarding the filing.

Very truly yours,



John K. Habib

Enclosure

cc: Joseph Rogers, Assistant Attorney General  
Colleen McConnell, Assistant Attorney General

Information Request AG-1-1

In February 2005, the Department approved a price volatility mitigation program proposed by the Company. D.T.E. 04-63. Please provide the estimated Peak CGA for effect November 1, 2005, had the Company not had this program in-place. Include all supporting documentation, calculations and assumptions. Please provide a breakdown of all administrative and procurement costs associated with the program for the prior year. These costs should include the costs of any financial arrangements associated with the program.

Response

The price-volatility program approved by the Department on February 28, 2005 for NSTAR Gas will not have an effect on the estimated peak-period CGA for the 2005/06 heating season. The program is designed to mitigate price volatility through systematic "purchases" over an extended (12-month) purchasing period. Therefore, the results of the NSTAR Gas purchasing program will have an effect on CGA rates effective with the 2006/07 heating season (beginning November 1, 2006).

As described at the technical session conducted on October 5, 2004, implementation of the program requires the Company to enter into "commodity swap agreements" with financial counterparties. These commodity agreements must be consistent with the guidelines of the International Swap Dealers Association ("ISDA"). In proposing the purchasing plan to the Department, the Company indicated that it had not previously entered into these types of agreements and the effort to develop these contracts with the appropriate financial counterparties would involve a 2-3 month process following Department approval. Thus, based on the November 1 approval date requested by the Company, the Company anticipated implementing the agreements by the end of December 2004 and commencing purchases in the January 2005 time frame for the 2005/06 heating season (allowing for 10 months of pricing increments prior to the 2005/06 heating season).

Upon obtaining the Department's approval on February 28, 2005, the Company determined that the 2-3 months process necessary to implement the ISDA contracts would abbreviate the 2005/06 purchasing schedule to a 4-5 month period, which would not be consistent with the underlying principle of laddering purchases over an extended time period to mitigate price volatility (*i.e.*, the Company would be locking in prices for a significant quantity of gas at only 4 or 5 separate price increments).

Accordingly, the Company sought to work through the contractual negotiations of ISDA contracts with the objective of commencing price locks under the plan in November 2005, so that by November 1, 2006, the Company will have locked in prices for up to 1/3 of its projected normal winter requirements in 12 purchasing increments during the 2006/07 heating season.